

October 26, 2012

The Honorable Thomas J. Curry, Comptroller Office of the Comptroller of the Currency 250 E St, S.W., Mail Stop 2-3 Washington, DC 20219 regs.comments@occ.treas.gov Docket ID OCC-2012-0008

The Honorable Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th St & Constitution Ave., N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov
Docket R-1442

The Honorable Martin J. Gruenberg, Acting Chairman Federal Deposit Insurance Corporation 550 17th St., N.W. Washington, D.C. 20429 comments@FDIC.gov RIN 3064-AD95

Re: Comments in Support of REIT Preferred as Tier1 Capital:

Dear Heads of Agencies,

Spectrum Asset Management fully supports the REIT structure as tier 1 capital for US banking entities. We believe that the US bank REIT structure fully meets the eligibility requirements under Basel III. We also emphasize that loss absorption and non-payment of dividends would be objectively held to the standards of payment restrictions under the Conservation Buffer rules in Basel III. Further, the key exchange feature of the REIT preferred (into holdco non-cumulative preferred stock) is fundamentally no different than point-of-non-viability tier 1 or contingent convertible capital notes which are popular in Europe – and importantly, there is no risk of a forced death spiral from forced conversion into common equity. US bank REIT preferred structures are indeed quite functional and understood by US investors.



As the structure of the US mortgage markets change and the dysfunctional structure of Fannie Mae and Freddie Mac are repaired (improved) so as to eliminate the subsidized link between these mortgage agencies and the US taxpayer, we envision US banks retaining increasing amounts of mortgages on the originating bank's own balance sheet. Indeed, this would be in keeping with a far less complicated operating profile and a gradual "utilitization" of the US bank business model. To this extent, we view the REIT structure as an economic core capital compliment to this prospective balance sheet growth paradigm for all US banks.

The US retail investor base is uniquely familiar with the US bank REIT structure and is at the beginning of 2 decade long rush in demand (or need) for investment income as the Age Wave moves into retirement – here, an issuance (supply) paradigm from banks can be balanced well against the income (demand) paradigm from retail investors. We also note that distributing bank tier 1 capital in REIT form to retail investors would indeed be net capital growth for the industry, rather than risking implosion through the incestuous trend of bank holding companies owning each other's preferred stock for the tax benefit of a dividend-received deduction.

We are extremely troubled by the statement: "The agencies do not expect preferred stock issued by a REIT that does not have the ability to declare a consent dividend to qualify as tier 1 minority interest." An explicit requirement for this "ability" to be "pre-covenanted" in the REIT prospectus is arbitrary, unnecessary, and could put some US bank REIT investors at risk of a capital treatment event redemption unless the application of "ability" is clarified. Our view is that every US bank REIT board certainly has the explicit ability to elect "consent dividend" treatment under Internal Revenue Code Section 565 (f)(1) and that this codified fact manifestly satisfies any Basel III requirement for such prospective ability.

Spectrum supports grandfathering all outstanding REIT preferred issues to eliminate any doubt on tier 1 capital qualification.

Respectfully,

Phil Jacoby

CIO, Spectrum Asset Management, Inc.

Spectrum Asset Management, Inc. is a leading manager of institutional and retail preferred securities portfolios. A member of the Principal Financial Group® since 2001, Spectrum manages portfolios for an international universe of corporate, insurance and endowment clients; mutual funds distributed by Principal Funds Distributor, Inc.; and preferred securities separately managed account solutions distributed by Principal Global Investors, Inc.